

Lecture 4 - From Confucian Fiscal Thought to Business: Avoiding Competition

The Cornerstone of "Complete Victory"

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Introduction: A Counterintuitive Idea

Today's topic is **avoiding competition**, a concept that might seem counterintuitive in our competitive world.

We will explore why this is actually a cornerstone of achieving "complete victory" in both military and business strategy.

The core idea: Is fighting really the *best* way to win?





The High Cost of Conflict

Violent campaigns, in war or business, inevitably harm everyone involved—winners and losers alike.

Costs include lives lost, money spent, and resources depleted.

Even the "victor" often requires expensive rehabilitation just to return to their pre-conflict state of stability and welfare.

Key Question: If you win but are too exhausted to profit from the peace, was it truly a victory?

The Path to "Complete Victory"

A wise leader should always seek to achieve goals through nonviolent means.

The ideal situation is to win without exhausting your capacity, even if you have superior resources.

This concept was articulated by ancient military strategist **Sun Tzu**.

He called it "subduing the enemy without destroying them".

This is the definition of a **"complete victory"** (true pinnacle of excellence) and should be the ultimate goal in all conflicts.



Contrasting Philosophies: Sun Tzu vs. Clausewitz

Sun Tzu

Goal: "Complete Victory" - subduing the enemy without destroying them.

Method: Achieve objectives with minimal cost and destruction. Win without fighting.

Modern Application: Win-win situations in business between a firm and its stakeholders.

Clausewitz

Goal: Destruction of the enemy's army and occupation of their territory.

Method: Dominate through force and combat operations.

Historical Example: The immense bloodshed of World War I.

- Scholar Liddell Hart argued that Sun Tzu's strategy is superior to Clausewitz's "win at all costs" approach



Lecture Outline



1. Sun Tzu's Military Concepts: A deep dive into "Planning Offensive" and the idea of "Complete Victory".



3. Integration and Comparison: Combining Sun Tzu's ancient wisdom with Porter's modern business framework.



2. Michael Porter's Five Forces Model: A framework for selecting an attractive industry in business.



4. Business Case Study: Analysing Apple's entry into the smartphone industry using these integrated models

Sun Tzu: Complete Victory by Planning Offensive



1. Winning without Fighting

This section explores Sun Tzu's philosophy, which remains profoundly relevant today.



2. Knowing the Enemy and Oneself

We will focus on two core principles:





Principle 1: Winning without Fighting

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Sun Tzu's Maxim: “To win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill”.

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- Why?
- Using physical force provokes strong resistance.
- This leads to massive expenditures, loss of life, and suffering.
- Liddell Hart's Insight:

“If you concentrate exclusively on victory, with no thought for the after-effect, you may be too exhausted to profit by the peace, while it is almost certain that the peace will be a bad one, containing the germs of another war”.

- The goal is not just to win the battle, but to **win the peace** for long-term sustainability.

Principle 2: Knowing the Enemy and Oneself

- This is the absolute prerequisite for achieving victory, whether fighting or not.
- Sun Tzu's Levels of Knowledge:

Know the enemy and oneself: You will not be in danger in a hundred battles.

Know oneself but not the enemy: You will win one and lose another.

Know neither the enemy nor oneself: You will lose every battle.

- "Knowing" involves understanding both physical and psychological strengths and weaknesses.



Dimensions of "Knowing"

Physical Assessment

- **Enemy:** Size, location, equipment, readiness, logistics.
- **Oneself:** Accurately assessing your own capabilities, limitations, and location is just as crucial.

Psychological Assessment (The "Will")

- **Oneself:** The ruler must secure public support ("national will") for the campaign to succeed.
- **Enemy:** Understanding their intentions and motivations, often through intelligence, is vital for a noncombat victory.



Porter: Five Forces Model

- Let's pivot to the modern business world with Michael Porter's indispensable framework for analysing industry competition.
- **Core Idea:** The structure of an industry determines its profitability.
- Competition goes beyond direct rivals; Porter identified five competitive forces, or "**extended rivals**".



STRATEGY

The Five Competitive Forces



1. Bargaining Power of Suppliers: Powerful suppliers can demand higher prices, reducing industry profitability.



2. Bargaining Power of Buyers: Powerful buyers can force prices down and demand more services, reducing profitability.



3. Threat of New Entrants: New players increase competition. High "entry barriers" (e.g., high capital requirements) make an industry more attractive.



4. Rivalry Among Existing Firms: Intense rivalry (e.g., price wars) drives down profits for everyone.



5. Threat of Substitute Products or Services: Products from outside the industry that meet the same need can limit pricing power.

The goal is to find an industry where a firm can defend against these forces or minimise their threats.

Extending Porter's Model



1. Convergence: The blurring of boundaries between technologies, products, and industries.



2. Collaboration: The growing importance of interfirm collaborative relationships.

Fading Boundaries

- Industry boundaries are determined by the scope of products or services and the geographic scope, but...
- Industry boundaries are becoming harder to define.
- Evidence: Today, ~90% of U.S. patents combine codes from at least two different categories, up from 50% in the 19th century.
- Example: IT firms like Apple and Google are expanding into non-IT industries like automobiles and watches.





The Role of Cooperation



Competitive forces (like powerful suppliers/buyers) don't always have to be a threat.



They can be sources of **innovation and competitiveness**.



Profitability can depend on attracting a broad range of contributors, including competitors.



Cooperative relationships are critical for a healthy business ecosystem. Cooperation can increase the overall benefits for everyone involved.

- For example: Alliance between Starbucks and Nestlé.

The Integration of Sun Tzu and Porter



Now, let's combine these two powerful frameworks to gain a richer understanding of strategy.



Competition is inevitable; "avoid fighting" means **value creation**.



Sun Tzu's "Complete Victory" can improve **Porter's "Entering an Attractive Industry"** by adding a focus on sustainability:



In a fast-changing world, an industry's attractiveness can be transitory. A "complete victory" strategy aims for more permanence.



Example: Creating a platform that incorporates complementary products and services can lead to a more sustainable victory.

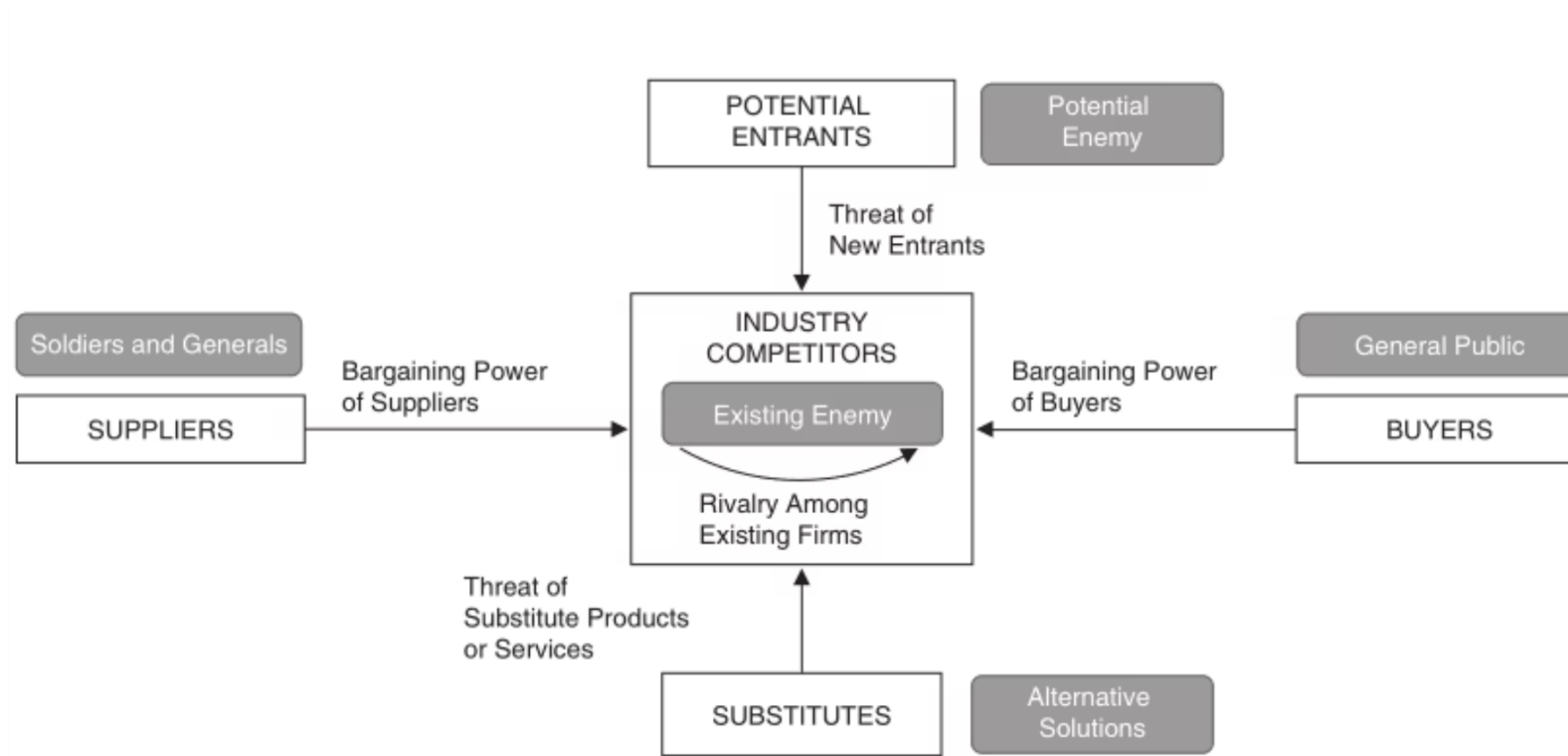


Competitors in War vs. Business

- We can extend Sun Tzu's concept of the "enemy" by borrowing from Porter's "five forces".
- If five forces determine an industry's attractiveness, then **five military forces** can determine the potential cost of war.
- This integrated view provides a richer understanding of the entire competitive landscape

Porter's Business Force	Extended Military Analogy
Existing Competitors	Existing Enemies
Potential Entrants	Potential Enemies
Suppliers	Soldiers and Generals
Buyers	The Public
Substitutes	Alternative Solutions

Connecting War Strategy to Competitive Forces



A visual link between Sun Tzu's strategic thinking and Porter's Five Forces framework.

Business Case: The Mobile Phone Industry

- Let's apply these concepts to Apple's revolutionary entry into the mobile phone market.
- **The Question:** How did Apple, a computer company, successfully enter the fiercely competitive mobile phone market without facing severe resistance?





Industry Rivalry: Before and After the iPhone

Pre-Smartphone Era:

- Rivalry was **fierce** and brutal.
- Characterized by short product life cycles, changing tastes, and heavy R&D investment.

Post-iPhone Era:

- The industry shifted to a "**bipolar order**" dominated by Apple and Samsung.
- The market transformed from niche to mass market.
- Rivalry is now considered **medium** — intense, but not the extreme price wars of the past.

Apple's Strategy: A "Complete Victory"

Apple's success wasn't just about choosing an attractive industry or reducing competitive forces.

Apple succeeded by *creating a new attractive industry* where partners could co-develop (e.g., the App Store).

The profitability model shifted from being *competition-only* to one that embraces **both competition and cooperation**.

This is a perfect example of Sun Tzu's "complete victory"—winning without fighting head-on by redefining the terms of engagement.



Conclusion & Key Takeaways

1. Shared Goal: Both Sun Tzu's "complete victory" (pinnacle of excellence) and Porter's strategy share the fundamental goal of **achieving maximum output with minimum input.**

2. Extended "Enemy": Porter's comprehensive view of rivals can extend Sun Tzu's concept of the enemy, leading to a more robust strategic analysis in any conflict.

3. Cooperation is Key: True, sustainable success (a "complete victory") in the modern world is often achieved not just by competing, but by creating a new ecosystem where partners, and even rivals, can co-develop and thrive.

Final Thought

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True strategic brilliance lies not in brute force, but in understanding the broad competitive landscape, knowing yourself and your opponents, and finding ways to achieve your goals with minimal cost and maximum sustainability.

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Sometimes, the best way to win is to avoid the fight altogether.

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